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ECONOMIC FORECASTING CENTER

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MONTHLY PROJECTIONS
January 1990

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INTEREST RATES SHOULD FALL WITH INFLATION IN THE SPRING

The economy is neither as slow as those declaring a recession has already begun or as inflationary as those who see ready reasons why the interest rates should have increased 0.75 percentage points in the past four weeks and could increase further. To be sure, economic activity has stalled in the late fall and early winter months. The 0.5% gain in GNP for the fourth quarter still may be revised downward to show a negative. Indeed, the 0.4% drop in manufacturing inventories for December suggests that total inventory investment was overstated in the preliminary report. The trade balances also could be revised downward when more information is available. Thus, a negative fourth quarter still is a distinct possibility.

Also, economic activity remains sluggish in January. The employment report was surprisingly strong, with payrolls rising by 275,000 and the diffusion index measuring the hiring activity of 349 industries rebounding to a near normal 59%. However, the 104,000 increase in construction employment was caused by unusually mild weather in January following especially severe December weather. Some reduction in construction activity is likely if more normal weather surfaces in the next few months. In addition, the retail employment gains reflected the absence of normal seasonal hiring during the Christmas season. That is why retail employment fell 30,000 in December. Thus, the post Christmas layoffs were less intense than expected by the seasonal factors. More normal retail activity certainly is expected in subsequent months. Nevertheless, the index of hours worked expanded by 0.6% in January and almost certainly will now increase for the quarter. Offsetting these clear gains is the weakness in manufacturing. Industrial activity almost certainly fell sharply in January, as clearly signalled by the purchasing managers' survey. Auto layoffs were nearly 100,000, and some of those are permanently lost jobs from plant closings.

Of course, the good news associated with these signs of continuing industrial weakness is the apparent reductions in inventories that such production curtailments are achieving. Activity already is well below sales, suggesting that if sales can remain at current levels or improve, activity will begin improving before the end of the quarter. Looking at initial unemployment claims, the waves of layoffs hit their peaks in late December, when many construction workers were temporarily idled by the weather, and early January. The insured unemployment rate peaked early in January at 2.4% and has again trended down to 2.2% as the month ended. This clearly indicates that the cumulative weakness associated with recession is not upon us.

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Nevertheless, the economy is not yet clear of the recessionary risk. Rising unemployment, interest rates and inflation have worked their will upon consumer confidence. Consumers are showing the highest concern in more than two years according to the Conference Board survey. The Sindlinger survey, which registers changes in perceptions, clearly shows diminished confidence about the economy in most states. Unfortunately, that publication equated this reduction from normal anticipations as a reduction from normal conditions. As a result, states that are growing more slowly than normal, but are growing, were included as recessionary along with states that clearly are experiencing recessionary behavior. Moreover, states that have survived the auto layoffs are shown as robust, when the real interpretation is that the expected disaster did not materialize. Thus, Sindlinger's surveys, while appropriately registering deviations from normal perceptions, cannot be used alone to declare the presence of recession.

Even if the consumer surveys are not yet consistent with recession, they show a clear reduction in consumer confidence that could lead to further dips in final sales. Indeed, auto sales during the second ten days of January slipped to a sluggish 6.8 million for domestically produced cars from 8.1 million ten days earlier despite the presence of dealer incentives during both periods. A close examination of consumer spending patterns will be necessary in the next few months to insure that recessionary behavior does not surface from this inventory adjustment and weather induced inflationary interlude.

During this period of uncertainty, many bond analysts have been bewildered to witness a sharp rise in interest rates despite clear evidence of a sluggish economy. Certainly, the winter weather has added to inflationary concerns, but those inflationary problems are not spilling over into hourly earnings. The hourly earnings index actually showed its strongest seasonally adjusted gains during the second period of 1989 and have been experiencing no further acceleration since that time. The especially small 0.1% gain during January clearly was distorted by the surge of seasonally adjusted retail employees that surfaced, but t the 3.7% gain from the previous year, down from more than 4% early in the fall certainly confirms that wage inflation is not intensifying at this time. Therefore, the temporary surge in inflationary pressures caused by the cold weather should be reversed in the spring with little damage to the underlying inflationary pressures.

A surge in long-term bond rates without any substantial evidence of rising core inflation leads to alternative explanations of why the bond market is behaving so badly. The chief argument currently used is that foreign interest rates have risen, as they have from 5% to 7% for ten year Japanese bonds, and from 6% to 7.5% for ten year German bonds. This narrowing of the interest rate differential is said to lower the attractiveness of American assets, leading to reduced purchases of stocks and bonds by foreign investors. As a result, interest rates have soared in the United States.

Certainly, rising interest rates abroad cannot be ignored by the United States, but there are several ways to respond to those changes. First, the increase in interest rates in Japan appears to be related to uncertainties surrounding the February 18 election. Japanese are less comfortable buying Japanese bonds until those uncertainties diminish. This provides no reason for them to become less willing to buy American bonds. In fact, the narrowing interest rate differential with Japan restores asset equilibrium and requires no change in our asset values, until the election is history and that uncertainty is removed. This is confirmed by the relative weakness in the Japanese yen. If the interest rate differential were attracting capital, the yen would be strengthening rapidly.

The German interest rate move is related to changes in monetary restraint in Europe in an effort to tame an inflation rate of more than 3%. Such monetary restraint should attract capital flows from other investors, either leading to a widening of the interest rates or a change in relative currency values. Obviously, the strong German mark indicates that strengthening currency values was used to restore balance in the capital accounts. But if currency values were changed to restore balance, then interest rate differential changes are not needed to do the same thing. Indeed, countries can regain control over their own domestic markets by permitting free fluctuations of currency values, which apparently has been done. To count the narrowing interest rates as the cause of both the change in currencies and the need for higher interest rates in the United States is to assign two events to one instrument. (Of course, a bit of both events could be used to restore equilibrium, but that certainly eliminates the need to restore the old interest rate differentials, as some analysts have claimed).

Certainly, to the extent that a weak dollar against the German Mark leads to higher import prices and inflationary pressures associated with higher capacity utilization of export oriented industries, interest rates would be justified to rise in the United States. But that means that higher inflationary pressures, not a change in the interest rate differential for any inflationary pressures is responsible for the higher interest rates.

Also, countries can counter the impact of rising interest rates abroad by changing their investment-savings behavior at home. In our analysis concerning the implications of Eastern Europe, we mentioned that world inflation may initially be increased by the re-industrialization of that sector. However, falling defense spending in the United States, by lowering defense spending and reducing domestic borrowing needs, could withstand the higher inflation and interest rates worldwide. Although the President's initial budget did not show vigor in reducing defense, his restraint in other areas led to only a 3% nominal increase in expenditures. Assuming an addition 1% gain because of too rosy estimates of interest rates, that still means that the structural deficit has been reduced by nearly $30 billion. Furthermore, his new initiative for further reducing troops in Europe means that further gains are likely in lowering the structural deficit. This certainly is a large enough shift in dissavings by the Federal Government to offset any interest rate differential upon domestic interest rates.

If the interest rate differential argument has been overblown, what explains the rapid rise in interest rates? Although some soft spots are present in this explanation, the winter's price inflation sharply increased the demand for money. Political pressures assured that the Federal Reserve could not counter this pressure with rising interest rates. As a result, Federal Reserve liabilities have soared, but the higher cash purchases of items such as gasoline, fruits, and vegetables meant that this surging monetary base was partially restrained by currency growth. Bond investors, aware of the surging potential reserves and their inflationary implications if not withdrawn in a timely fashion, sold their portfolios.

Of course, if the monetary base is not slowed once the temporary shift in money demand is reversed, higher inflation and economic activity is in store for later this year. However, assuming the money demand shift is temporary, a substantial slowing in the growth of the monetary base is likely when winter prices give way to spring declines. The Federal Reserve may not ease short term interest rates until that base is moped up, but the base, interest rates and currency demand all should come tumbling down in the spring.

Monthly Statistical Highlights

	JAN 1989	FEB 1990	MARCH 199
Payroll Employment		+113,000	+141,000
Index of Hours Worked		+0.2%	+0.2%
Household Employment		+84,000	+132,000
Civilian Unemployment Rate		5.4%	5.4%
Personal Income	+0.4%	+0.6%	+0.5%
Savings Rate	5.4%	5.6%	5.7%
Personal Consumption	+0.7%	+0.6%	+0.4%
Retail Sales	+1.6%	+0.5%	+0.1%
Auto Sales	9.5*	9.5*	9.4*
Housing Starts	10.6%	-2.6%	+0.2%
Housing Permits	-1.6	-3.3%	-0.6%
Construction Expenditures	+0.9%	-0.2%	+0.6%
Business Inventories	+0.4%	+0.4%	+0.4%
Orders for Durable Goods	-3.7%	-0.1%	+0.3%
Orders - Nondefense Capital Goods	-13.3%	-4.2%	+0.8%
Industrial Production	-0.5%	+0.2%	+0.1%
CPI	+0.9%	+0.4%	+0.3%
PPI	+1.8%	+0.3%	-0.3%
Consumption Deflator	+0.5%	+0.4%	+0.3%
Leading Indicators	-0.1%	-0.1%	+0.2%
Currency Index	-1.8%	+0.0%	-2.4%
Equity Index	-2.7%	-1.9%	-0.2%
Real GNP (annual rate)	-0.3%	+0.6%	+1.2%
M1 (annual rate)	-1.5%	+4.9%	+4.4%
M2 (annual rate)	+2.9%	+5.7%	+5.6%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Although manufacturing employment fell by 112,000, auto and auto related industries accounted for virtually all the decrease. The manufacturing diffusion index actually rose to 48.2%, which still means contraction but clearly shows that the weakness is heavily concentrated. The seasonal and weather distortions in construction and retail still would not have led to sluggish employment growth if they were removed. Activity was strong in the service components even with no growth in government payrolls. The workweek also was surprisingly stable for the reduction in auto employment that occurred.

Our tables are not revised for this late breaking report, but the January gains in hours worked and the weakness in hourly earnings (although partially distorted downward by the surge in retail employment) indicate that the index of hours worked will increase during the first quarter while the hourly earnings index will continue growing by less than 4%. Thus, positive growth is likely in this quarter while no acceleration in wage inflation is evident.

The participation rates were surprisingly low in January, suggesting that some underestimate of the labor force may have occurred. If so, the stability in unemployment still could be changed to rising unemployment later in the winter.

PERSONAL INCOME AND OUTLAYS-Although special factors had little impact on overall personal income they led to higher wage gains and lower increases in farm incomes and transfer payments than otherwise would prevail. A rebound in interest income could lead to higher personal income gains than currently projected for the first quarter. Obviously, the surge in wage income contributed to a substantial squeeze in corporate profitability. To the extent that auto bonuses biased the fourth quarter upward, slower wage gains are expected early in 1990. This should reduce the decline in profits, but a reversal of the downtrend in interest rates probably will limit the moderation.

Involuntary consumption due to the winter weather accounted for the weak savings. More than $15 billion of service expenditures was for heating and electricity that normal would not be needed. The mild January will throw service consumption below trend. However, higher gasoline and vegetable prices will continue the wave of involuntary consumption with sharp gains in nondurables. A rebound in auto sales also will lead to a surge in durables purchases. By February, however, the weather induced consumption should ease. Currently, the modestly declining projection of real consumption appears to be valid and will allow some further modest gains in savings. However, the consumer could become discouraged, leading to slower gains in durable consumption. This might still cause a mild recession but is currently not expected.

CONSTRUCTION-The weather apparently had less impact upon construction expenditures than upon construction employment in December. Indeed, construction on single family housing units actually increased, while nonresidential activity, especially commercial, was down sharply. Private institutional construction also is beginning to soften. A weather related rebound ins expected in January, but this weakness in private nonresidential activity is in response to overbuilding and significant financing constraints. This sector could be even weaker than projected, as orders are down about 3% for this activity. Public construction continued to be strong as rebuilding from natural catastrophes continued. Some softness is expected in this sector following that rebuilding effort, although the timing of the weakness could be delayed until the second quarter.

A weather related rebound in housing activity is expected, but rising interest rates and financing problems associated with the capital lending requirements of the recent thrift bailout legislation should substantially restrain homebuilding through much of this year. Financing restraints are expected to be most intense for multi-family units.

BUSINESS ACTIVITY-Aircraft orders continue to provide a distorted view of manufacturing activity. Virtually all the surge in durable orders is the result of large aircraft orders from two domestic airlines and a few foreign carriers. Of course, the Boeing strike also impacted shipments, causing weakness in spending of durable goods. As the strike is over, some improvement in shipments is likely. On the other hand, no early rebound in durable goods orders should materialize, now that most of the big orders are already placed.

Reduced utility usage and the January shut-down of the auto industry should lead to little industrial activity during the first quarter despite stronger production in aircraft. This weakness in industrial activity should permit further slack to develop in capacity utilization. As a result, price pressures will be diminished and orders will remain sluggish.

PRICES-The winter prices are easily seen in the PPI and the CPI but are only modestly apparent in the consumption deflator and the GNP deflator. This is because little acceleration in service prices is expected. However, natural gas distributors will be adjusting their contract prices upward all year to account for the losses they suffered from spot purchases of gas during the cold spell. Industrial prices actually continue to moderate once the freeze effects on energy materials and energy related products are reversed. Inflation during the first quarter clearly is higher than previously expected, but inflation for the year has not significantly increased.

MISCELLANEOUS-Rising oil prices and imports should prevent any significant improvement in trade balances during the year. However, the especially weak trade report for December appears to be an aberration.

Rising interest rates abroad clearly have a foreign exchange implication, which should lead to declining dollar values throughout the year. However, the stock market should begin to rally once corporate profitability begins improving in the spring. Renewed declines in interest rates are responsible for this improvement along with continued moderation in wage increases. The market probably reached its high the first trading day in January, but no dramatic decline is expected. Indeed, the stock market appears to be settling into a churning posture for the year.

FINANCIAL MARKETS

If sector flows of funds are analyzed, surging interest rates are not surprising. Forced consumption through January because of the unexpected cold led to declines in household savings. Some savings improvement now is expected in the spring, followed by modest upward drift in savings for the remainder of the year. As that latter drift will be accompanied by gradual increases in housing investment, this means the household sector substantially lowered its support to credit markets through January. Some additional contributions are expected in the spring before the household sector returns to a neutral impact upon credit markets during the second half of the year.

The government sector increased borrowings during the first quarter as a result of diminished tax collections, the increased borrowing needs of the RTC, and a stubbornly unchanged deficit. After all, the government also suffered from higher energy prices during the freeze. These deficits will remain in the $150 billion range in the spring and then fall toward $100 billion by the end of 1990. Therefore, the government will be diminishing its borrowing needs. State and local governments probably will continue to use previously accumulated reserves, but little further erosion in their surpluses is seen.

Of course, the corporate sector suffered from a profit squeeze and an unexpected $10 billion energy bill. Some of that energy payment went to local producers, who may have enhanced profits, but a substantial portion flowed abroad. As a result, corporate cash flow fell sharply, leading to smaller declines in commercial paper rates than in federal funds rates. With banks slowly tightening their lending requirements, CD rates fell sharply, but the financial restraints begun by banks had not yet significantly lowered the investment needs of corporations. As a result, corporate cash flow problems exerted substantial pressures upon interest rates. These pressures should persist through the winter and then ease

in the spring as adjusted profits begin improving. Late in the year, a further erosion of profitability caused by rising interest and wage costs once again will exert cash flow problems. Higher investment activity at that time will again exert upward pressures upon interest rates.

Foreign investors were seeking alternatives as the dollar began weakening and the interest rate differentials narrowed. These narrower differentials should persist and the dollar probably will weaken further. As a result, foreign investors probably will not support American assets as diligently as in the past. Coupled with corporate cash flow problems in the winter, this foreign reluctance did help to lower bond prices. By the spring, however, the foreigner should not be sufficient to dictate interest rate movements. Moreover, if the dollar falls sharply, then investors may presume that further declines are unlikely. This could rally dollar assets for the prevailing interest rate differential. After all, higher interest rates in the United States can persist only if the dollar continues to fall against other currencies.

Thus, interest rates probably will not return to their low levels of November, but long-term government bond yields should again fall to 8 percent by the end of spring. Slight upward drift in rates then can be expected in the summer and fall.

EQUITY MARKETS-During January, the only force working in favor of equity values was the certainty that San Francisco could not lose to Denver. Corporate profits were falling sharply, especially the non-petroleum based corporations. Interest rates were rising. Foreign investors were seeking alternative investments, and economic conditions appeared especially uncertain. Now, the uncertainty is gradually lifting. The bond market still must weather substantial government supply, but conditions for lower interest rates should be in place before the end of February. Corporate profits probably are still eroding, but the collapse in profitability should be less than in the fourth quarter. Thus, by spring, the only remaining negative should be the foreign investor.

All of this suggests that the stock market could right itself in the spring. While such an outcome is possible, the market really has not fully discounted the earnings deterioration and interest rate reversal that developed in recent weeks. Unless interest rates decline, our formula suggests that stock market should fall to 2300. Therefore, upside potential in this market is not substantial.

In this environment some caution is suggested. Nevertheless, utilities should perform well through the spring. A rebound in technology stocks is expected this summer. Indeed, that sector may lead the market during the second half. Construction related industries remain weak and so do retailers. Cyclical stocks probably should be avoided, as any rebound in economic activity should be weak. However, multinationals should again look appetizing as Eastern Europe begins to develop.

Thus, some securities look desirable, but the overall market should show little direction this year.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	PROJ.	% change
July	108767		129.2		117459		5.3	9.69	
August	108887	2.1	128.5	2.3	117550	0.7	5.3	9.69	4.2
September	109096		128.9		117419		5.3	9.74	
October	109171		129.2		117585		5.3	9.78	
November	109393	1.7	129.0	0.2	117836	1.0	5.3	9.78	3.9
December	109535		128.6		117888		5.3	9.84	
January 1990	109632*		128.4*		117987*		5.4	9.88*	
February	109745	1.4	128.7	-0.9	118071	1.5	5.5	9.90	4.3
March	109886		128.8		118203		5.5	9.93	
April	110027		128.9		118305		5.6	9.97	
May	110165	1.5	129.0	1.2	118440	1.4	5.6	10.01	4.2
June	110319		129.1		118585		5.6	10.04	
July	110443		129.2		118696		5.7	10.07	
August	110593	1.6	129.4	1.3	118850	1.6	5.6	10.11	4.1
September	110755		129.6		119019		5.6	10.14	
October	110901		129.7		119176		5.6	10.18	
November	111053	1.7	129.9	1.5	119328	1.5	5.6	10.22	4.4
December	111211		130.0		119472		5.6	10.25	
Change Dec(90)/Dec(89)		1.5		1.1		1.3			4.2
Change Dec(89)/Dec(88)		2.3		1.4		1.5			4.1

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	4.444		2.645		209.8		3.799		3.589	
August	4.457	5.1	2.651	7.2	183.7	-10.8	3.809	6.5	3.625	7.5
September	4.467		2.668		191.8		3.813		3.622	
October	4.506		2.697		212.0		3.845		3.633	
November	4.548	7.9	2.699	7.6	240.5	72.7	3.884	7.4	3.643	4.5
December	4.569		2.716		218.5		3.899		3.681	
January 1990	4.585*		2.727*		212.6*		3.920*		3.707*	
February	4.614	6.4	2.744	5.9	222.1	-6.1	3.950	7.5	3.728	8.4
March	4.638		2.758		225.8		3.970		3.744	
April	4.663		2.772		224.3		3.983		3.759	
May	4.687	6.6	2.786	6.4	234.2	19.4	4.012	6.4	3.778	5.7
June	4.710		2.799		232.0		4.031		3.799	
July	4.732		2.811		226.7		4.049		3.822	
August	4.760	6.3	2.829	6.2	229.8	-0.5	4.072	6.4	3.842	6.8
September	4.783		2.843		233.1		4.092		3.859	
October	4.809		2.858		233.3		4.112		3.879	
November	4.837	6.7	2.875	6.7	235.8	6.0	4.136	6.4	3.900	6.4
December	4.861		2.888		230.7		4.156		3.925	
Change Dec(90)/Dec(89)		6.4		6.3		5.6		6.6		6.6
Change Dec(89)/Dec(88)		8.6		7.9		35.5		8.2		6.9

PROJ. includes current information until the * and then projections by month thereafter.
% change is the annualized percentage change from the previous quarter.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	3485.3		478.4		1130.0		1877.0		2673.3	
August	3521.2	7.6	498.9	13.4	1129.7	3.6	1892.6	8.7	2703.3	5.6
September	3517.8		480.9		1134.6		1902.3		2693.8	
October	3528.3		470.6		1134.7		1923.0		2684.4	
November	3538.6	3.2	467.8	-11.9	1138.2	2.7	1932.6	10.3	2681.4	-0.1
December	3575.6		474.5		1144.4		1956.7		2702.2	
January 1990	3601.5*		479.2*		1161.2*		1961.1*		2707.9*	
February	3621.4	7.1	481.4	9.1	1166.8	9.7	1973.2	7.5	2713.2	3.5
March	3637.1		483.4		1169.1		1984.6		2716.8	
April	3651.0		484.5		1169.2		1997.3		2720.5	
May	3669.5	6.6	487.3	5.1	1172.0	2.4	2010.2	7.8	2726.4	2.0
June	3690.0		490.2		1176.3		2023.5		2731.4	
July	3712.6		494.3		1181.7		2036.6		2738.9	
August	3731.8	6.7	494.2	5.2	1187.9	5.3	2049.7	8.0	2742.9	2.5
September	3747.8		492.0		1193.3		2062.5		2746.4	
October	3766.9		491.4		1199.9		2075.6		2750.6	
November	3787.7	6.2	491.6	0.2	1207.2	6.4	2088.9	7.9	2755.1	2.0
December	3812.1		498.4		1211.9		2101.8		2764.1	
Change Dec(90)/Dec(89)		6.6		5.0		5.9		7.4		2.3
Change Dec(89)/Dec(88)		6.9		-1.6		6.5		9.5		2.6

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	143.56		22.80		10.2		88.90		31.85	
August	144.86	7.5	23.15	3.6	11.5	21.1	88.98	5.1	32.72	17.2
September	145.29		22.89		10.6		89.43		32.97	
October	143.43		22.81		8.8		89.45		31.17	
November	144.18	-1.5	22.97	-1.0	8.5	-57.4	90.16	4.6	31.06	-17.1
December	144.44		22.89		8.8		90.72		30.83	
January 1990	146.81*		22.85*		9.5*		92.01*		31.95*	
February	147.50	9.5	23.01	1.5	9.5	40.2	92.46	10.4	32.03	13.1
March	147.69		23.06		9.4		92.64		31.99	
April	147.32		23.05		9.7		92.65		32.35	
May	148.05	2.4	23.15	3.2	9.8	16.4	92.87	2.4	32.57	7.4
June	149.25		23.26		10.0		93.21		32.78	
July	150.15		23.37		10.6		93.64		33.14	
August	150.63	6.4	23.35	4.0	10.6	28.4	94.13	5.3	33.15	5.9
September	150.81		23.43		10.2		94.56		32.82	
October	151.26		23.55		9.5		95.08		32.63	
November	151.86	4.1	23.71	5.5	9.4	-30.2	95.66	6.4	32.49	-3.4
December	153.01		23.84		9.8		96.03		33.14	
Change Dec(90)/Dec(89)		5.9		4.2		11.4		5.9		7.5
Change Dec(89)/Dec(88)		3.8		2.4		-22.8		6.7		-2.3

PROJ. includes current information until the * and the projections by month thereafter.
% change is the annualized percentage change from the previous quarter.

CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	1.420		1.026		0.394		1.281	
August	1.329	-4.3	0.990	1.2	0.339	-18.2	1.328	-6.0
September	1.264		0.971		0.293		1.319	
October	1.423		1.023		0.400		1.356	
November	1.342	-1.3	1.003	-7.4	0.339	18.3	1.342	11.3
December	1.235		0.904		0.331		1.337	
January 1990	1.366*		0.992*		0.374*		1.316*	
February	1.330	2.8	0.973	2.2	0.357	4.6	1.273	-16.8
March	1.332		0.981		0.351		1.265	
April	1.329		0.985		0.344		1.261	
May	1.348	1.9	0.996	5.5	0.352	-7.5	1.267	-3.4
June	1.370		1.005		0.365		1.293	
July	1.376		1.014		0.362		1.296	
August	1.373	7.9	1.018	8.4	0.355	6.6	1.291	5.8
September	1.376		1.015		0.361		1.288	
October	1.369		1.016		0.353		1.275	
November	1.351	-4.8	1.007	-2.0	0.344	-12.4	1.255	-8.7
December	1.355		1.009		0.346		1.258	
Change Dec(90)/Dec(89)	9.7		11.6		4.5		-5.9	
Change Dec(89)/Dec(88)	-21.7		-20.8		-24.1		-11.9	

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	133.6		81.5		195.2		410.3		343.4	
August	137.5	7.9	84.4	6.3	194.4	-13.1	416.3	-2.8	345.7	-4.7
September	136.8		86.6		192.8		416.2		345.7	
October	137.0		85.4		193.2		415.6		344.7	
November	135.9	-0.7	91.4	19.0	194.4	-2.1	421.7	2.4	348.9	0.8
December	134.3*		86.9*		191.7*		412.9*		340.7*	
January 1990	135.6		87.6		193.5		416.7		343.2	
February	135.2	-0.7	86.2	-9.1	194.3	3.3	415.7	0.1	341.6	-0.1
March	135.7		86.1		196.2		418.0		342.6	
April	136.3		85.8		196.3		418.4		342.4	
May	136.5	3.2	85.8	-0.6	196.6	4.6	418.9	2.6	342.0	2.4
June	136.9		86.4		197.7		421.0		343.1	
July	137.3		86.6		199.6		423.5		344.0	
August	137.9	3.2	86.3	4.4	201.5	8.9	425.7	5.7	345.0	2.0
September	137.7		86.8		202.2		426.7		345.0	
October	138.5		87.1		202.9		428.5		345.6	
November	138.7	3.1	87.5	4.9	203.5	4.2	429.7	3.9	345.7	0.3
December	138.9		88.0		203.1		430.0		345.1	
Change Dec(90)/Dec(89)	3.4		1.3		5.9		4.1		1.3	
Change Dec(89)/Dec(88)	0.4		-2.1		-5.3		-2.8		-6.1	

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	370.8		122.03		41.45		34.26	
August	371.5	6.8	126.77	-4.2	37.13	-9.6	36.15	8.9
September	370.9		125.23		35.34		35.73	
October	371.7		124.26		35.98		34.17	
November	373.0	2.2	130.31	15.9	38.82	26.6	33.98	-12.8
December	374.5*		133.54		46.04		34.43	
January 1990	377.8		128.63*		39.92*		35.02*	
February	381.5	8.6	128.53	-2.1	38.23	-13.0	35.59	16.1
March	383.2		128.87		38.54		35.88	
April	384.2		127.64		37.25		35.99	
May	384.9	4.6	127.96	-3.0	37.57	-15.7	36.14	7.6
June	386.3		127.55		36.99		36.32	
July	387.9		127.96		37.22		36.43	
August	389.2	4.5	128.55	2.4	37.63	2.7	36.58	4.8
September	391.0		128.93		37.71		36.72	
October	392.9		128.78		37.51		36.88	
November	394.8	5.6	129.14	4.2	37.67	9.0	37.03	6.8
December	396.5		131.46		39.84		37.64	
Change Dec(90)/Dec(89)		5.9		-1.6		-13.5		9.3
Change Dec(89)/Dec(88)		5.8		1.1		16.8		5.4

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	787.6		8.19		141.9		83.7	
August	790.4	6.8	8.94	-3.0	142.5	1.3	83.9	-1.6
September	790.6		9.23		142.3		83.6	
October	793.2		8.25		141.8		83.1	
November	796.8	3.7	8.76	3.5	142.3	0.2	83.1	-2.7
December	800.2*		9.58		142.8		83.3	
January 1990	805.3		8.73*		142.1*		82.7*	
February	808.2	6.0	8.81	-3.4	142.4	0.0	82.6	-2.7
March	811.7		8.82		142.6		82.5	
April	813.5		8.74		142.7		82.3	
May	815.8	3.9	8.83	2.1	142.9	1.5	82.3	-1.4
June	819.3		8.93		143.1		82.3	
July	823.6		8.56		143.3		82.2	
August	827.2	5.5	8.87	2.9	143.6	1.9	82.2	-0.6
September	830.8		9.26		143.8		82.1	
October	835.3		8.44		144.0		82.1	
November	839.6	6.1	8.67	-5.4	144.2	1.7	82.0	-0.8
December	843.7		9.21		144.3		81.9	
Change Dec(90)/Dec(89)		5.4		-3.9		1.1		-1.7
Change Dec(89)/Dec(88)		6.2		-5.1		1.7		-1.2

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	124.5		113.5		112.2		126.7	
August	124.5	2.4	113.1	-0.6	111.4	-1.3	126.8	3.2
September	124.7		114.1		111.9		127.1	
October	125.3		114.6		112.4		127.6	
November	125.8	3.9	114.5	4.4	112.2	1.7	128.0	3.5
December	126.2		115.3		112.3		128.4	
January 1990	127.3*		117.4*		114.3*		129.1	
February	127.8	6.5	117.7	9.7	114.6	7.8	129.6	4.9
March	128.2		117.4		114.4		130.0	
April	128.5		117.1		114.5		130.3	
May	128.9	3.7	117.2	-0.8	114.9	1.6	130.7	3.5
June	129.4		117.5		115.3		131.1	
July	129.9		117.9		115.7		131.5	
August	130.4	4.5	118.3	3.3	116.1	2.9	131.9	3.7
September	130.8		118.5		115.4		132.3	
October	131.3		119.0		116.2		132.7	
November	131.7	4.2	119.5	4.1	116.7	3.5	133.1	3.7
December	132.1		119.8		117.3		133.5	
Change Dec(90)/Dec(89)		4.7		3.9		4.5		4.0
Change Dec(89)/Dec(88)		4.7		4.9		3.9		4.0

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	130.4		111.3		123.3		141.4		119.5	
August	130.3	2.1	111.6	1.9	122.5	-1.4	141.9	4.1	120.4	1.8
September	130.6		111.2		122.8		142.2		120.4	
October	131.4		111.3		123.8		143.0		120.6	
November	132.0	4.6	111.7	1.2	124.3	4.3	143.5	4.8	120.9	2.7
December	132.3		112.1		124.4		144.0		121.2*	
January 1990	133.0*		112.0*		125.7*		144.6*		121.4	
February	133.5	4.8	112.1	1.6	126.3	6.6	145.1	4.6	121.7	2.7
March	133.9		112.3		126.5		145.7		122.0	
April	134.2		112.4		126.5		146.3		122.2	
May	134.6	3.5	112.6	1.7	126.8	2.2	146.8	4.8	122.5	2.5
June	135.1		112.8		127.3		147.4		122.7	
July	135.6		113.0		127.7		148.0		123.1	
August	136.1	4.3	113.3	1.8	128.1	3.9	148.6	4.9	123.4	3.1
September	136.5		113.0		128.5		149.2		123.7	
October	137.0		113.2		128.9		149.8		124.0	
November	137.5	4.2	113.4	1.1	129.3	3.8	150.5	5.1	124.3	2.9
December	137.9		113.6		129.7		151.1		124.6	
Change Dec(90)/Dec(89)		4.2		1.3		4.3		4.9		2.8
Change Dec(89)/Dec(88)		4.3		0.4		5.0		4.4		3.5

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.
July	-8.24		144.1		5255		4148		- 9.9
August	-10.10	-7.5	144.8	-0.0	5286	6.2	4169	3.0	- 3.1
September	-8.51		145.0		5301		4171		- 5.9
October	-10.25		144.5		5317		4166		- 7.3
November	-10.50	-97.5	144.7	0.3	5337	4.3	4169	0.5	- 8.9
December	-11.08		145.0*		5356		4170		-11.2
January 1990	-10.11*		144.9		5382		4169		-21.3
February	-9.86	26.1	144.8	0.5	5405	5.2	4171	0.3	-23.1
March	-9.54		145.0		5428		4175		-20.4
April	-9.23		145.3		5444		4178		-15.5
May	-9.36	17.2	145.4	1.5	5467	4.8	4183	1.2	-11.7
June	-9.56		145.6		5495		4191		-14.7
July	-9.26		145.4		5521		4198		-17.8
August	-9.03	13.1	145.7	0.7	5545	5.6	4204	1.8	-20.3
September	-8.89		146.0		5566		4207		-23.2
October	-8.65		146.0		5596		4217		-25.2
November	-8.73	17.2	145.7	0.6	5621	5.8	4223	2.1	-24.6
December	-8.55		146.0		5652		4234		-23.6
Change Dec(90)/Dec(89)		22.8		0.7		5.5		1.5	
Change Dec(89)/Dec(88)		-2.5		-0.1		6.5		2.4	

	Currency Index		Adjusted Profits		30-Year Government Bonds		New York Composite	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	99.12		175.5		8.31		185.15	
August	100.44	0.4	175.3	-6.8	8.22	-20.7	192.93	39.6
September	101.87		167.0		8.13		193.02	
October	98.92		156.3		8.00		192.49	
November	97.99	-10.8	158.9	-31.5	7.90	-13.2	188.50	1.7
December	94.56		155.8		7.90		192.54	
January 1990	92.86*		150.3		8.29*		187.43*	
February	92.88	-7.2	149.8	-16.5	8.42	20.4	183.92	-12.4
March	90.67		150.2		8.22		183.53	
April	90.91		154.6		8.10		187.71	
May	91.89	-6.8	156.7	18.3	7.98	-13.7	190.26	12.1
June	91.43		158.3		7.95		192.93	
July	92.14		160.3		8.06		192.70	
August	92.65	-5.0	158.3	8.0	8.11	4.6	189.12	1.2
September	91.87		160.1		8.13		190.80	
October	90.46		161.7		8.16		192.00	
November	90.77	-10.9	160.1	2.9	8.24	6.7	188.26	-3.6
December	89.96		160.3		8.30		187.13	
Change Dec(90)/Dec(89)		-4.9		2.9		5.1		-2.8
Change Dec(89)/Dec(88)		2.9		-20.3		-12.3		23.9

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	290.4		777.2		3116.8		9.24		7.61	
August	290.9	2.8	777.4	1.5	3135.8	7.5	8.99	-23.9	7.74	-26.9
September	292.5		781.1		3153.5		9.02		7.74	
October	293.2		787.7		3173.6		8.84		7.62	
November	293.7	3.6	789.6	6.9	3196.2	7.9	8.55	-19.1	7.49	-9.4
December	294.7		797.6		3217.0		8.45		7.42	
January 1990	300.3*		796.6*		3224.6*		8.27*		7.44*	
February	301.8	11.0	799.8	4.1	3239.6	5.6	8.22	-16.5	7.41	-6.7
March	302.9		802.7		3254.3		8.21		7.29	
April	303.7		805.5		3267.7		8.03		7.12	
May	305.0	4.5	809.6	5.0	3285.3	5.7	7.86	-16.5	6.97	-19.8
June	306.4		813.5		3301.8		7.72		6.86	
July	308.0		818.7		3321.7		7.68		6.83	
August	309.3	5.7	822.6	6.6	3337.8	6.6	7.78	-5.8	6.95	-3.6
September	310.6		826.3		3353.5		7.80		6.98	
October	311.7		830.1		3368.9		7.96		7.06	
November	312.8	4.6	833.5	5.1	3382.7	5.5	8.07	21.5	7.13	15.3
December	313.8		835.1		3395.6		8.39		7.32	
Change Dec(90)/Dec(89)		6.5		4.7		5.6		-0.7		-1.3
Change Dec(89)/Dec(88)		3.3		0.9		4.8		-3.5		-9.7

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	8.94		6.96		8.68		8.76		10.98	
August	8.96	-20.1	7.06	-8.5	8.57	-30.2	8.64	-31.0	10.50	-22.4
September	9.01		7.26		8.70		8.78		10.50	
October	8.92		7.22		8.53		8.60		10.50	
November	8.89	-3.5	7.14	1.1	8.35	-11.5	8.39	-12.6	10.50	-5.9
December	8.86		6.98		8.29		8.32		10.50	
January 1990	9.01*		7.12*		8.23*		8.20*		10.03*	
February	9.09	7.6	7.18	1.9	8.17	-10.5	8.19	-11.2	10.00	-17.4
March	9.06		7.14		8.08		8.18		10.00	
April	8.97		7.03		7.93		8.01		10.00	
May	8.83	-8.0	6.92	-11.1	7.75	-17.6	7.88	-14.2	9.76	-9.9
June	8.80		6.87		7.64		7.76		9.50	
July	8.88		6.98		7.69		7.82		9.50	
August	8.95	3.2	7.07	6.7	7.75	-1.0	7.89	0.0	9.50	-10.0
September	8.98		7.11		7.82		7.94		9.50	
October	9.03		7.15		7.91		8.03		9.84	
November	9.11	7.8	7.24	11.0	8.06	18.1	8.15	16.7	10.00	24.9
December	9.18		7.33		8.28		8.40		10.29	
Change Dec(90)/Dec(89)		3.6		5.0		-0.1		1.0		-2.0
Change Dec(89)/Dec(88)		-7.4		-8.3		-9.0		-10.1		0.0

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